Forward Planning 2018

HSBC Agriculture

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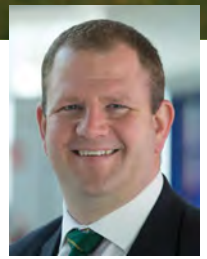
HSBC

Striving for excellence



Neil Wilson
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Welcome to the 2018 edition of our Forward Planning booklet. I'd like to thank all of our contributors who have helped to make this a thought provoking publication. Once again, our focus is on cost management and benchmarking rather than output pricing.

Stability
In the past year we have listened to lots of wide-ranging thoughts and opinions on what the agriculture and farming sectors may look like post March 2019 when we exit our membership of the European Union.

With that debate we may have expected some volatility in the markets driven by sentiment and reaction to some of those views. However, from an income perspective the industry has had a relatively benign 12 months compared with previous years.

As we suggested in the 2017 Edition, the weaker pound has helped to support incomes despite the growing uncertainty around future trade, labour and policy deals and positions. Currency markets are covered later in this publication with the pound once again expected to remain as a weak player in the currency markets.

The future direction of interest rates is also covered and it seems that the agriculture industry will have to consider increases, albeit small, in borrowing costs over the coming months and years.

Progress
It has been another year of positive progress at HSBC with our agriculture business continuing to grow. This is highlighted in our Contacts section at the very back of the booklet where you will find the names and contact details of all of our team members.

Our appointments of Grace O'Dwyer as Regional Agriculture Director for our South and East region and Melanie Shipley as our National Agriculture Support Manager underline the commitment to our national agriculture business and the industry as a whole. It also means we have a stronger team to help deliver for our customers and stakeholders.

Excellence
Our lending philosophy remains focused on understanding the management quality and long-term viability of the business in question. This is a long-standing principle held at HSBC and I see no reason for change now.

In 2017 we wrote about planning ahead and I have been delighted with the progress some parts of the industry have made with this as a way to deal with uncertainty.

Striving for excellence in everything we do throughout the industry is vital. Uncertainty remains a key driver in the farming industry so taking control of metrics and areas that you can influence is much more important than spending precious time being concerned about matters that you cannot influence.

In the face of potential uncertainty it is crucial that business managers operate at as high a level as possible. We see those enterprises with strong and considered management to be the businesses who tend to be the most successful.

Our Agriculture Managers are equipped to help you be the best you can be in your business, whether that be through their own skills or through their wide and varied connections across the industry. I would encourage you to talk to our Agriculture team to see how we can work with you to keep striving for excellence.

Assumptions
The figures used in this booklet cover the 2017/18 growing season for crops that will be marketed in late 2018 and into 2019. Livestock systems, including dairy, cover 12 months from April 2018 to March 2019. There are a number of footnotes in each section giving specific reasoning for various figures and outcomes.

Commitment
HSBC is committed to sector-wide collaboration to ensure the best possible outcomes for the agriculture industry in the year ahead and beyond. We are open for business and our agriculture lending fund continues to deliver for customers and new clients alike.

Our best wishes go to all of our customers and industry colleagues for the year ahead. I hope it is a successful one for you all.

Neil Wilson
Head of Agriculture
November 2017

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"Striving for excellence in everything we do throughout the industry is vital."

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"From an income perspective the industry has had a relatively benign 12 months compared with previous years."

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Arable

EU28 production, despite having experienced serious impact from weather conditions, both drought (Spain) and rainfall (Germany), is still broadly stable thanks to a large French crop.

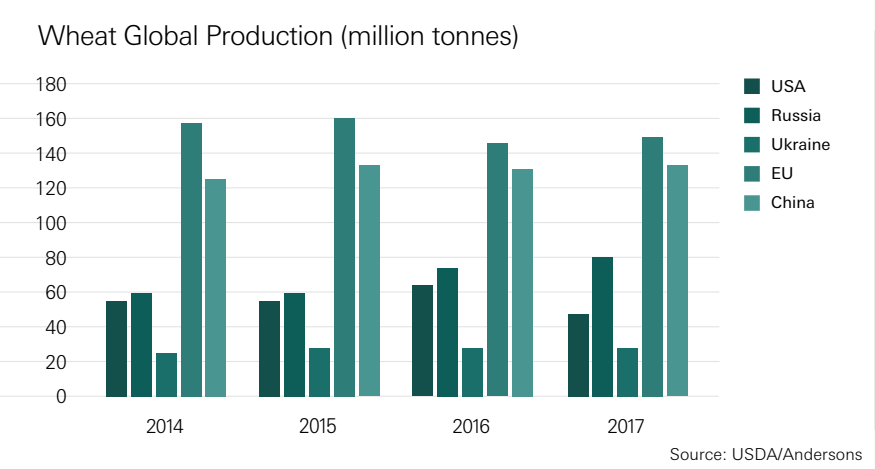
The large crop from Russia and Ukraine is weighing on the market and suppressing French and other exports, as price competition becomes fierce. The Russian wheat crop is forecast to be a record 78.9Mt in 2017/18 and will test the ability of the infrastructure in the country to handle and move this amount of grain.

The markets are trading with plentiful supply and volatile currencies with the prospect of more instability to come, putting risk management in the spotlight.

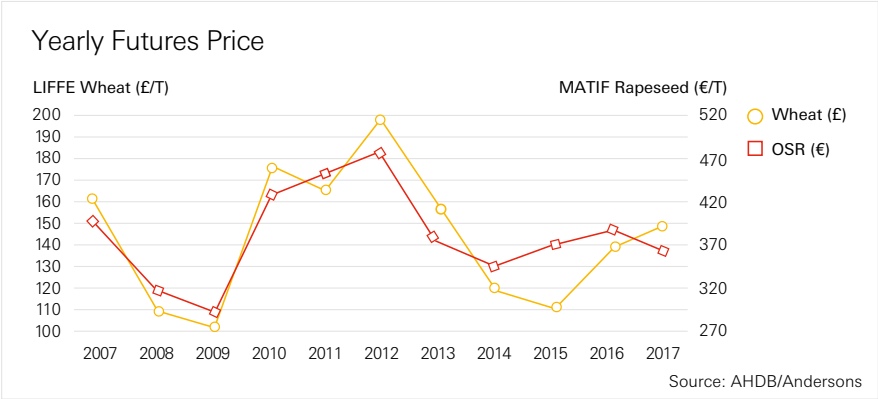
A UK wheat harvest of somewhere in the region of 14.3m tonnes with only around 500k tonnes to export, of which a good proportion had already been shipped, will mean there is relatively little external influence on the market as we are not competing for export trade.

Whilst the UK crop has good protein, weather has seen off a good deal of hagberg, and the amount of full spec quality is limited. There are already good premiums available, and the prospect could be for a hardening of that position as the season plays out, with uncertainty over the crop in store. So far, milling premium is more than double last year at around £12 per tonne. A shortage of Group3 wheat has led to an unusually strong premium for that too, with a search for higher performing biscuit varieties.

The potential in the future will be to consider import substitution for the post-Brexit UK crop and to seek to supply the milling and baking industries to a greater extent.



HSBC MARKET VIEW 2018



The bioethanol industry has been a strong contributor to demand lately, and weaker sterling is keeping the UK relatively competitive.

Malting barley is short because of weather – and subject to the potential for buyers to adjust specifications to bring more tonnes into the reckoning. The likely strengthening of the market as the season progresses is based on the need to find quality in a thinly supplied market.

This has of course led to a plentiful supply of feed barley and, having experienced more than one difficult year with barley, growers may well see a reduction in area as particularly winter barley growers decide enough is enough with poor gross margins.

Oilseed rape crops were under pressure last autumn and in the South East of England there were a number of growers with little or no crop left after dry conditions and flea beetle had ravaged the crop. Those crops that made it through have performed well in 2017, giving a surplus over forecast tonnage. Prices are being buffeted by currency and variable news on soybeans – US crop up and Argentina down by around 7%. China is expected to import a record tonnage of soybeans.

Many farms have grown protein crops to assist with their compliance with CAP Greening regulations, which is of course not an option for the 2018 crop unless produced without using agrochemicals. Beans have suffered widely from bruchid beetle damage, which has firmed the market for human consumption, but with moderate yields generally, the result is still not a profitable one. The prospect of a lower area after Greening changes should provide an opportunity for a stronger market base.

The background to the commodity markets is one of plentiful and sustained supply, which has created a weak position the UK has been insulated from by the weakening of sterling after the Brexit vote. The impact has been worth around £15-20 per tonne in cereals, and should not be underestimated as a contributor to present firmer arable profitability. As the pressures of inflation take hold, cost increases due to exchange rates will take a good proportion of the benefits away again. The other difficulty is volatility, which is going to be a greater factor with the global uncertainties and £ $ € interactions, putting pressure on decision making and risk management.

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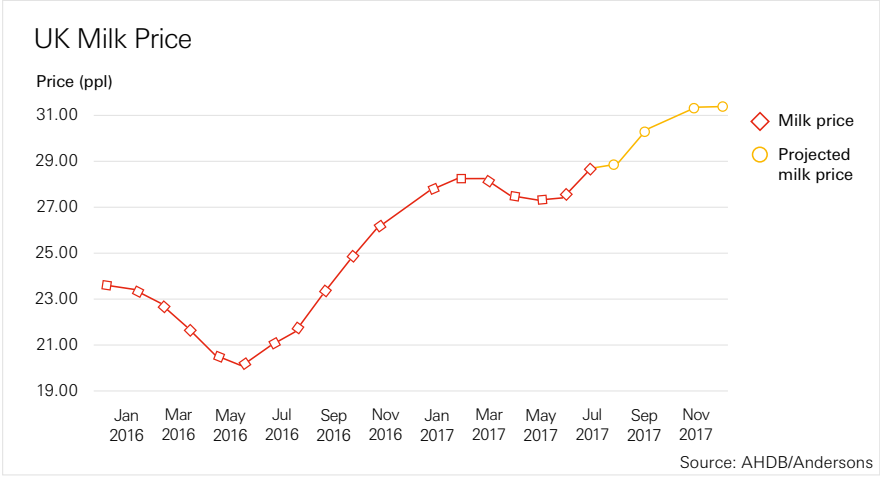
Dairy

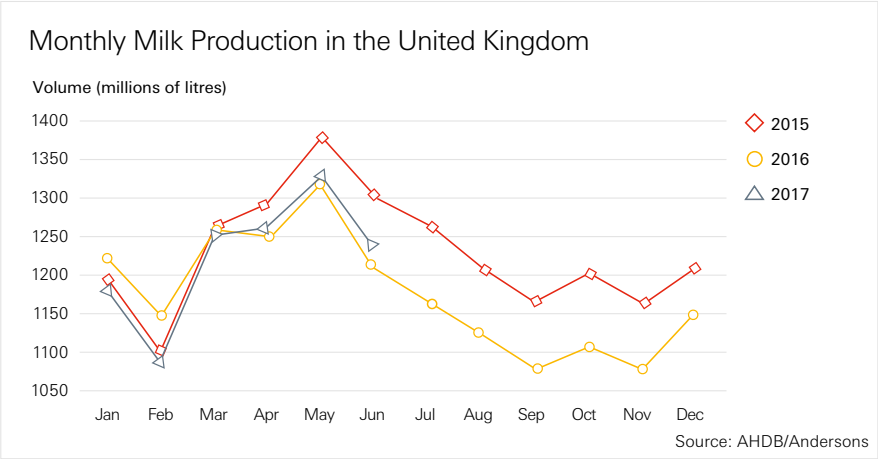
Milk pricing continues to be highly volatile. The initial recovery from the nine-year low milk price of 19.95 pence per litre (average UK farmgate price excluding bonuses) in June 2016 was sustained through the autumn and spring, before easing through the summer of 2017. With UK milk in relatively short supply, little surplus milk in Europe, and the weak pound (£), prices look set to increase further through the winter and into the spring of 2018.

As this review is published, the current AMPE price stands at 40.10 pence per litre (compared to the all-time low in April 2016 at 15.50 pence per litre) and DairyCo's new forward milk price calculator suggests the value of milk is in excess of 41.50 pence per litre (for October 2017).

Following the recent milk price volatility, a number of milk processors have developed their own fixed price / futures mechanisms to allow producers to lock in at a set price reducing volatility at farm level. One example is Glanbia, who have announced a five-year fixed milk price contract, which is a world first. The contract will allow producers to lock in 10%-100% of their milk at 31 euro cents per litre. There will also be the option of locking into a long-term feed contract, with producers receiving an additional bonus for doing so. Other processors such as Yew Tree Dairies, Muller Milk and Crediton Dairies have also developed futures contracts. These mechanisms should be positive for the industry allowing farmers to manage risk and long-term volatility.

The graph opposite confirms that milk production is tight. It is interesting to note that the reduction was due to a lower yield per cow, not fewer cows. This is just the second time this response has been seen in the last 10 years. Perhaps dairy businesses are becoming more focused on improving their efficiency, rather than solely on increasing milk yields?





Looking ahead, milk production may not increase as rapidly as might be expected, due to a trend of fewer replacement dairy heifers, with more beef semen used during the low milk price seen in 2016.

Looking to the future, there has been little progress in respect of Brexit, although it now appears much more likely that the BPS will be significantly reduced for most dairy farmers after 2020, unless they can offer significant environmental benefits.

Supply and demand is therefore likely to be the overarching issue that impacts on the milk price going forward.

Worldwide demand continues to be positive, with the OECD suggesting demand could increase by 2.0% per annum for the next decade.

Worldwide production is taking some time to recover. US output is up; NZ output is relatively static; as is production from the EU. Significant increases from the EU are unlikely, at least in the short term, given the impact of phosphate quotas in Holland, which could lead to a 6-10% reduction in their milk output.

The other key factor is that China appears to be buying milk again, with WMP, cheese and whey imports all up significantly on 2016.

The key dilemma for many producers will be whether or not to increase output. Given that the number of farmers requesting to borrow money increased by 42% during 2016 and 60% of dairy farms had debt, many might reflect that less output could be more profitable, if lower milk output continues to drive prices upwards?

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Red Meat

Clean cattle prices at the time of writing (September 2017) are running some £0.30-£0.35 per kilogram deadweight up on the year with R4L steers worth 385p per kg deadweight. This has had a knock on effect on store cattle prices, with most sales centres reporting the price of 12-month-old stores up around £80-£100 per head on the year. The 2017 lamb crop has been selling at rates well in excess of last year and there is optimism regarding breeding sheep prices at the autumn sales.

Both beef and sheep producers have benefited from increased competitiveness due to weaker sterling following the Brexit vote in June 2016 and more recently a strengthening euro due to improvements in the European economy.

With regard to profitability, the Basic Payment is a highly significant element of most beef and sheep producers' incomes, with the majority of businesses losing money without it. Payments have been boosted some 20% to 25% due to the devaluation of sterling, considerably improving results for producers.

This seems to have given at least some temporary confidence to the sector, with the suckler beef herd appearing to have stabilised at around 1.55 million cows after several years' decline, and the breeding ewe flock continuing its gradual increase from a low 13.8 million ewes in 2010 to 14.8 million ewes today.

Price prospects for the year ahead depend on the overall trade position, taking into account production, imports and exports, and the level of consumption.

The UK is around 75% self-sufficient with regard to beef, hence the price of imports (largely from Ireland) have a significant effect on the base price. With regard to sheep meat, the UK is typically self-sufficient with volumes produced and consumed each year more or less equal. Due to the seasonal nature of UK sheep meat production around 30% of total output is exported, and it is the export price which is the dominant factor in setting the base price for sheep meat.

Prime cattle slaughterings in 2018 are forecast to increase by perhaps 2% to 3% on the year, to over 2 million head (the UK has not exceeded this figure since 2011), due to increasing beef calf registrations over the last few years. However, with cull cow slaughterings at lower levels than recent years due to better milk prices and the downward pressure on carcase weights continuing as retailers seek generally lighter carcasses, total production looks unlikely to increase significantly in the year ahead.

With regard to imports, Irish production, which is the source of almost 70% of UK imports, has been increasing and is heading for its highest level in the last 10 years. To date, the threat to the UK of these levels of higher production has been mitigated by the favourable exchange rate, but this could yet be offset if Irish farm gate prices fall, and this appears the main factor which could put negative pressure on UK prices in the year ahead.

With the UK breeding flock gradually moving upwards, and the production of sheep meat along with it (see graphic), if the better prices of 2017 are to be maintained, it will depend upon a favourable exchange rate continuing to boost export prospects, and a continuation of the significantly lower levels of imports from New Zealand. In the first quarter of 2017 UK sheep meat imports were down almost 16% on the year.

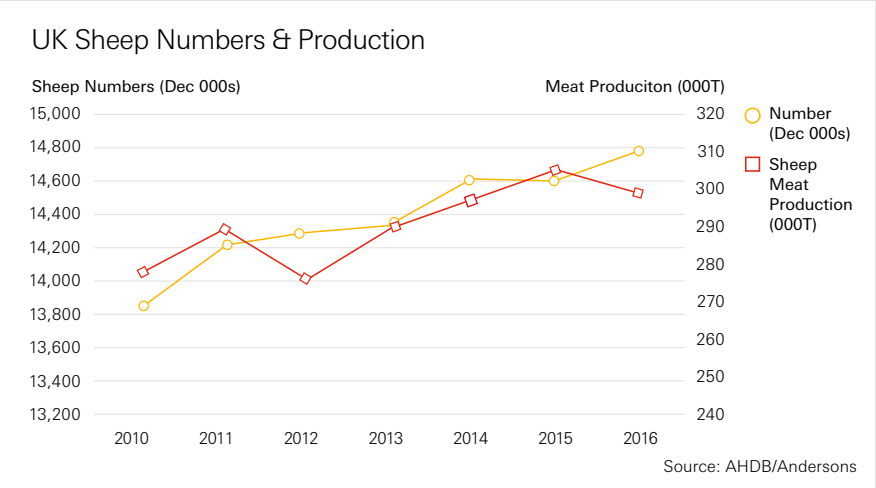
Both the New Zealand and Australian breeding flocks have been hit by drought, reducing supplies. Given shortages of both New Zealand and Australian lamb, this has had a positive effect on world market prices, which in turn reduces the incentive to supply the UK market where exporters face the ongoing weakness of sterling.

Hopefully these lower levels of imports will continue for 2018, but Australian and New Zealand farmers are likely to rebuild their flocks, not least on the back of better world market prices, and this will result in an increase in production and export availability at a time when UK sheep meat production is generally increasing.

UK consumers have benefited from a deflationary retail environment in recent years; however, it is reasonable to expect food prices will begin to increase, and this may start to have a negative effect on demand for red meat which is significantly more expensive than poultry and pig meat.

Whilst the trading environment for beef and sheep producers remains generally positive for 2018, there are clouds on the horizon, most notably Brexit, as support payments and trade with the EU look likely to remain the dominant factors in determining profits.

The pressure on producers to improve their competitiveness looks likely to take a step change post Brexit. Whatever deal is eventually struck, the successful businesses of the future will be looking to address this now whilst making the most of the current better trading conditions.



Economic Outlook

Mark Berrisford-Smith
Head of Economics
Commercial Banking
HSBC UK Bank plc

Barring major weather events, farmers and growers in the UK face a relatively benign environment in 2018.
Prices for agricultural products have firmed on the back of a marked improvement in the global economy, and the exchange rate between sterling and the euro is set to remain at favourable levels.

Following three difficult years, during which Total Income From Farming (TIFF) declined by more than a third, the agriculture sector in the UK is well-placed for a modest revival in 2017. Weather conditions for growers have not been ideal, but have been far from disastrous, while prices have continued to firm. A recovery of prices has been under way since the second half of 2016, driven by the strengthening of the global economy, reductions in capacity and sterling's depreciation against the dollar. If prices hold at the level reached by the summer of 2017 for the remainder of the year, then they would be around 10% up from 2016.

The sector will also receive another boost, albeit more modest than in 2016, from higher disbursements under the Basic Payments Scheme (BPS). Payments received by farmers from December 2017 will be on the basis of an average exchange rate during September of 89.47p per euro.

Across the UK economy as a whole, the pace of growth has slowed since the start of 2017. GDP growth is expected to come in at 1.7% for 2017 as a whole, slowing a touch to 1.5% in 2018. The agriculture sector should be relatively

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"It is anticipated that sterling will come under renewed downward pressure during 2018."

immune from this slowdown thanks to the continued robust expansion of the global economy and the associated firming of prices for foodstuffs and industrial raw materials. Nonetheless, with British households once again suffering a decline, albeit a relatively modest one, in their real disposable incomes, some consumers are likely to place a higher priority on 'value for money' when shopping for food. The pressure on living standards is a consequence of rising inflation (a result of the recent depreciation of sterling) running ahead of earnings growth. The annual rate of consumer price inflation is expected to peak at 3.1% towards the end of 2017, before easing gradually throughout 2018. Households' disposable incomes should therefore stop falling in real terms by the end of 2018, although with inflation expected to remain above the 2% target until 2020 the revival will be negligible.

Meanwhile, the recent pick-up in the pace of global economic growth looks set to be sustained throughout 2018, barring any major geopolitical hiccups. With most major economies now enjoying modest to brisk rates of economic expansion, some central banks have begun the delicate process of tightening the stance of monetary policy, edging back from the emergency settings that were applied during the global financial crisis and which have been sustained, and added to in many cases, in subsequent years in order to ward off deflation. The Federal Reserve in the United States is furthest along this path, having increased its policy interest rate four times and made a start on the process of selling the assets acquired under its various programmes of quantitative easing (QE).

It is the expectations of financial markets about the timing and scale of monetary tightening which has been the primary driver of exchange rate movements in recent years. The dollar strengthened ahead of the Federal Reserve's first interest rate hike in 2015, and the euro has rallied since the beginning of 2017 in anticipation that the European Central Bank (ECB) will soon start to taper its programme of QE, ahead of the first increases in its policy interest rates in 2019.

In the case of sterling, expectations about interest rates can also produce significant fluctuations; but these are overshadowed by the ebb and flow of sentiment towards Brexit. In view of the tight schedule of the Brexit negotiations, and the scope for brinkmanship as the deadline looms, sterling could also be subject to bouts of turbulence. It is anticipated that the pound will come under renewed downward pressure during 2018 as the Brexit negotiations move towards their denouement in the autumn. HSBC forecasts that sterling will end 2017 at $1.35 per pound and £0.89 per euro. These rates are then forecast to depreciate further to $1.26 per pound and £0.95 per euro by the end of 2018.

It should be stressed, however, that these projections are highly sensitive to the progress and outcome of the Brexit negotiations. While the financial markets would prefer a smooth transition rather than a so-called 'cliff edge', what they really crave is certainty. Once the shape of the post-Brexit landscape is known, then sterling is likely to recover some, and maybe all, of the ground lost in the aftermath of the referendum. It is possible that rapid progress will be made in concluding a formal exit treaty and putting transitional arrangements in place. But it's equally possible that the negotiations could break down amid acrimony and recriminations, leading to a sudden and disruptive change in the UK's trading and economic relationship with the EU from March 2019. Such a 'cliff edge' scenario would push sterling lower and cause a short-lived economic recession in the UK.

Aside from potential exchange rate volatility, farmers will also have to adjust to a small increase in borrowing costs during 2018, the Bank of England having announced a quarter-point rise in UK Bank Rate following November's meeting of the Monetary Policy Committee (MPC). This decision came as no surprise, and indeed had been clearly signalled to the extent that any other outcome would have been a big shock. The question now is whether this marks the start of a sustained cycle of tightening.

With the unemployment rate having fallen to its lowest level since 1975, the MPC is concerned that wage pressures could soon build, so adding to the inflation arising from the depreciation of sterling. And the forecasts in the Bank of England's latest Inflation Report assume two more rises, one in 2018 and another in 2019. We are not so sure about a 2019 increase, as we think Brexit uncertainty may by then be eroding confidence; but before then we expect another quarter-point increase, probably in May 2018.

Exchange rates (including HSBC forecast for 2018)

	Sep 2011	Sep 2012	Sep 2013	Sep 2014	Sep 2015	Sep 2016	Sep 2017	Forecast Sep 2018
US$ per euro	1.34	1.29	1.35	1.26	1.12	1.12	1.18	1.20
US$ per £	1.56	1.61	1.62	1.62	1.51	1.30	1.34	1.29
£ per euro	0.86	0.80	0.84	0.78	0.74	0.87	0.88	0.93

Source: Thomson Datastream; Currency Outlook (HSBC Global Research), November 2017

The currency forecasts in this article reflect HSBC's published forecast as at 10 November 2017, which include a GBP/EUR rate of 95p at the end of 2018. For purposes of farm business planning it is considered that a more cautious euro exchange rate of 90p is appropriate, and this rate has been used in preparing all other sections of this booklet.

Expert opinion: UK agriculture in 2018

Members of the farming community share their views on the outlook for 2018.

Meurig Raymond,
NFU President

and
Anand Dossa,
NFU Economist

Making the case for the future of farming

The last three years have certainly been volatile for the farming industry. Through the ebb and flow of agricultural commodity markets to the result of the EU Referendum and the subsequent uncertainty, the sector has seen many farming businesses challenged like never before.

The political and economic uncertainty has been the main driver of the currency changes we have witnessed. In the short-term, the shifts in exchange rates are increasing commodity prices and providing much needed support to agriculture's exports. However, a weaker pound is a double-edged sword for farming. The fall in the value of the pound has led to increases in farming costs.

Total input costs have seen an overall increase of 5% since the EU Referendum, according to Defra's latest Agricultural Price Index. Some key farming costs have seen much greater increases – for example feed wheat prices have risen by over 28%, fertiliser prices are 25% higher than in June 2016 and energy prices have increased by 8% since the EU vote. Over the next few months, the focus for farm businesses will continue to be the three 'I's – inflation, interest rates and input costs.

Farmer confidence is absolutely critical to the future of a progressive, profitable and productive food and farming sector. Confidence feeds through to investment. Making investment decisions for the long term – in buildings and other farm infrastructure, for example – is challenging against a backdrop of increased political uncertainty.

Over the past year, the NFU has presented its vision for a thriving agriculture sector post-Brexit. Our vision is clear: competitive, profitable and progressive farm businesses must play a central role as a part of a dynamic UK food chain.

The NFU's key Brexit asks are:

- Delivery of the right post-Brexit trade deal with continued tariff-free and frictionless access to the Single Market
- A domestic agricultural policy suited to Britain
- Access to a competent and reliable workforce
- A regulatory framework that supports productive agriculture alongside protecting the environment and public health.

British farmers should also be in a position to deliver an increasing proportion of the nation's requirement for high quality, safe, affordable food, as well as developing new export markets.

The NFU has engaged extensively with its members as part of our Brexit work, along with government and with industry and interest groups within and beyond agriculture.

We are strongly making the case to government for a Brexit that maintains strong economic links with the EU. This would be centred on tariff-free trade and a system of customs control that allows goods to flow freely between the UK and EU, whether through a sophisticated customs agreement, or even continued membership of the Customs Union.

Furthermore, government must maintain current levels of public investment in agriculture to ensure we are resilient and productive in future. And while there is a desire to take control of our

> "Farmer confidence is absolutely critical to the future of a progressive, profitable and productive food and farming sector."

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borders and our sovereignty, this must not come at an economic cost that damages farming and undermines the amazing value we deliver for the British people.

Jay Wootton,
Andersons farm business consultant

Looking ahead on arable

We're in a phoney war situation as we leave 2017 behind. Farmers in the combinable sector are seeing better prices and a Basic Payment that's worth more. The trouble, though, is that this is only half the equation.

Prices are becoming more volatile – much of that because of currency. We are seeing cost inflation for inputs, machinery and now labour as well. Some people may not see this coming, and it's going to make life tougher for the sector.

For the arable sector generally, farm businesses would be wise to concentrate on how they manage risk in these more volatile markets.

There is a lack of quality from harvest in many areas of the UK, so it'll be about how to make the most of what you've got.

For potato producers, the key challenges are going to be keeping a focus on market options and only growing on the best land. The market is depressed because people have grown too many potatoes, some on marginal land, which is definitely less profitable or unprofitable. We will see the chance of a more stable market if producers grow less, and of better quality. This should be part of the thinking for 2018.

Although I'm not pessimistic about the short term, we are heading for serious structural changes arising from Brexit. The problem for farmers is that no-one knows what those changes will be, and neither, it appears, does the Government. We can't prepare for what we can't see.

Rather than speculating, the best we can do in 2018 is to get on with running businesses as efficiently as possible. The best approach is to mitigate risk and maximise profitability, which will stand growers in good stead whatever happens next.

Our advice for 2018 is also to ensure you have complete and accurate information about your farm business to enable a clear understanding of relative performance and opportunities to improve, to recognise talent – because there is a critical shortage of people in the industry – and to take a good look at your objectives and requirements from the business.

> "The best we can do in 2018 is to get on with running businesses as efficiently as possible."

HSBC MARKET VIEW 2018

Strutt and Parker's
Michael Fiddes,
Head of Agency,

and
Jason Beedell,
Head of Rural Research.

The lie of the land in 2018

The Agriculture Bill, on how the UK will withdraw from the CAP, will be published and be debated in 2018, as will the Government's 25-year environment plan. This is very important for land managers as well as farmers and it could set the direction for farming, forestry, land use, housing, the planning system and development for a long time. It could be the catalyst for the end of farm payments as we know them. The Natural Capital Committee's advice to government on the plan is to switch funding from farm production support to delivery of public goods.

Some land managers may choose not to engage with these new policies, but we think most will. They will have to work out how they can produce food and public goods in a profitable way; this includes identifying what public goods their land can provide – now or in the future.

With little land coming on to the market this autumn, supply will be down on the five-year average. That is largely down to uncertainty about what Brexit will mean for subsidies, the Agriculture Bill and environment plan.

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In 2018, however, we may start to see more land available as average prices have held up well and some investors believe, rightly or wrongly, that now is the time to sell, before any more uncertainty trickles into the sector. A recent poll shows this to be true for both land for sale and for renting or contract farming.

On the demand side, larger blocks of land have sold readily in 2017 due mainly to the investment of non-farming money into the sector, in particular from land sold for residential development. Beyond agriculture, there remains a good demand for land in the right location.

For smaller blocks of land there is a much greater variety in prices being achieved as location becomes more critical.

Overall, we see real opportunity for entrepreneurial farmers to acquire land at lower cost especially in locations where there is no market for land outside agricultural use. These are the progressive farmers who are tapping into specialised markets, selling direct or adding value through processing.

Demand for land to rent or contract-farm remains strong and we expect this to continue in the short-term as many farmers are looking to take on more land to spread their machinery and labour costs.

In terms of prices, the rental market is dependent on local demand. For contract farming agreements, we expect to see contractors bid for a higher fixed element of income (the contractor's charge) after receiving lower income in 2015 and 2016. Conversely, the farmer/landowner will get a higher proportion of their return linked to the financial performance of the crops.

Tom Gethin
Young farmer
Brymar Holsteins

The year ahead for a family farmer

Looking back 12 to 18 months, dairy farming was pretty much at a standstill and people were trying to cut costs. We're now coming out of that period of depressed milk prices and 2018 promises to be more profitable for many. We're now in a position to recover any losses and reinvest in our herds and their accommodation. That's true for us because we took the decision to keep production up during the tough times rather than cut back. Any farmer who took that route will now be in a situation to take advantage of the better times ahead.

I still see prices fluctuating over the next six months, but not the drastic highs and lows we've had previously. We can expect prices to be more steady.

I do have worries, though. Brexit is number one because of the complete lack of knowledge about what's going to happen. Fifty per cent of our workforce comes from Europe and we rely heavily on them. No matter what happens, it will be harder for them to come here to work.

Farms that can offer decent wages and working conditions will obviously attract people more easily. We also need to involve staff more, show them they're respected and give them a sense of responsibility. I'd like to see more people coming into farming rather than taking on ancillary roles, such as consulting or nutrition.

"I still see prices fluctuating over the next six months, but not the drastic highs and lows we've had previously."

I'm also worried about the influence that veganism is starting to have. The movement is heavily backed, they know how to use social media and a lot of celebrities are behind them. The dairy industry has reacted too slowly and the £1.2m Dairy UK and the AHDB is putting into publicity to fight our corner isn't enough. We need to be able to tell our story and help the public see the link between farming and the food on their plates, perhaps through farm tours, open days and so on.

Another concern is the threat from digesters and potato harvesters who are offering high rents for land. It's meant feed for cows is harder to find.

Having said that, we wouldn't be investing heavily if I weren't optimistic. Overall, I'm very confident about the future and can see a bright 2018 ahead.

Arable

"The potential in the future will be to consider import substitution for the post-Brexit UK crop."

Market View, p8

The following Enterprise Margin data has been provided by Andersons Farm Business Consultants and is presented here in conjunction with HSBC.

Arable

Winter wheat – feed

PERFORMANCE LEVEL

Tonnes per hectare	8.60	10.00	8.60	10.00
	£ per hectare		£ per tonne	
Output @ £ 142.00 per tonne	1,221	1,420	142.0	142.0
Total gross output	**1,221**	**1,420**	**142.0**	**142.0**
Variable costs				
Seed	81	81	9.4	8.1
Fertiliser	168	182	19.5	18.2
Spray	188	221	21.9	22.1
Total variable costs	**437**	**484**	**50.8**	**48.4**
GROSS MARGIN	**784**	**936**	**91.2**	**93.6**
Total overheads			**86.9**	**75.5**
Total cost of production (£/t)			**137.7**	**123.9**
Net margin (before support payments) (£/t)			**4.3**	**18.1**

Crop price	Net margin sensitivity – £/t	
(£/t)	8.60 t/ha	10.00 t/ha
122.00	(15.70)	(1.94)
142.00	4.30	18.06
162.00	24.30	38.06

Price based on feed wheat sold mid season
The value of straw is excluded from the gross margin
Total overheads derived from the combinable crop unit on page 35, including allowance for rent, finance, drawings and tax

ENTERPRISE MARGIN ARABLE

HSBC Market View
Arable
Dairy
Red meat
Agricultural support

Winter wheat – milling

PERFORMANCE LEVEL

Tonnes per hectare	8.20	9.30	8.20	9.30
	£ per hectare		£ per tonne	
Output @ £ 154.00 per tonne	1,263	1,432	154.0	154.0
Total gross output	**1,263**	**1,432**	**154.0**	**154.0**
Variable costs				
Seed	85	85	10.4	9.1
Fertiliser	178	203	21.7	21.8
Spray	194	221	23.7	23.8
Total variable costs	**457**	**509**	**55.8**	**54.7**
GROSS MARGIN	**806**	**923**	**98.2**	**99.3**
Total overheads			**91.1**	**81.0**
Total cost of production (£/t)			**146.9**	**135.7**
Net margin (before support payments) (£/t)			**7.1**	**18.3**

Crop price	Net margin sensitivity – £/t	
(£/t)	8.20 t/ha	9.30 t/ha
134.00	(12.90)	(1.71)
154.00	7.10	18.29
174.00	27.10	38.29

Price based on milling wheat sold mid season
The value of straw is excluded from the gross margin
Total overheads derived from the combinable crop unit on page 35, including allowance for rent, finance, drawings and tax

Winter barley – feed

PERFORMANCE LEVEL

Tonnes per hectare	7.25	8.75	7.25	8.75
	£ per hectare		£ per tonne	
Output @ £ 122.00 per tonne	885	1,068	122.0	122.0
Total gross output	**885**	**1,068**	**122.0**	**122.0**
Variable costs				
Seed	74	74	10.2	8.5
Fertiliser	161	180	22.2	20.6
Spray	159	165	21.9	18.9
Total variable costs	**394**	**419**	**54.3**	**48.0**
GROSS MARGIN	**491**	**649**	**67.7**	**74.0**
Total overheads			**98.3**	**82.4**
Total cost of production (£/t)			**152.6**	**130.4**
Net margin (before support payments) (£/t)			**(30.6)**	**(8.4)**

Crop price	Net margin sensitivity – £/t	
(£/t)	7.25 t/ha	8.75 t/ha
102.00	(50.60)	(28.43)
122.00	(30.60)	(8.43)
142.00	(10.60)	11.57

Price based on feed barley sold mid season
Malting varieties can attract a premium
The value of straw is excluded from the gross margin
Total overheads derived from the combinable crop unit on page 35, including allowance for rent, finance, drawings and tax

Spring barley – malting

PERFORMANCE LEVEL

Tonnes per hectare	6.25	7.50	6.25	7.50
	£ per hectare		£ per tonne	
Output @ £ 145.00 per tonne	906	1,088	145.0	145.0
Total gross output	**906**	**1,088**	**145.0**	**145.0**
Variable costs				
Seed	67	67	10.7	8.9
Fertiliser	94	101	15.0	13.5
Spray	112	118	17.9	15.7
Total variable costs	**273**	**286**	**43.6**	**38.1**
GROSS MARGIN	**633**	**802**	**101.4**	**106.9**
Total overheads			**114.0**	**97.2**
Total cost of production (£/t)			**157.6**	**135.3**
Net margin (before support payments) (£/t)			**(12.6)**	**9.7**

Crop price	Net margin sensitivity – £/t	
(£/t)	6.25 t/ha	7.50 t/ha
110.00	(47.60)	(25.30)
145.00	(12.60)	9.70
180.00	22.40	44.70

Price based on contracted malting barley sold mid season
Distilling barley will attract higher prices than brewing barley
The value of straw is excluded from the gross margin
Total overheads derived from the combinable crop unit on page 35, including allowance for rent, finance, drawings and tax

Winter oilseed rape

PERFORMANCE LEVEL

Tonnes per hectare	3.10	3.75	3.10	3.75
	£ per hectare		£ per tonne	
Output @ £ 340.00 per tonne	1,054	1,275	340.0	340.0
Total gross output	**1,054**	**1,275**	**340.0**	**340.0**
Variable costs				
Seed	55	55	17.7	14.7
Fertiliser	190	207	61.3	55.2
Spray (inc. Desiccation)	243	253	78.4	67.5
Total variable costs	**488**	**515**	**157.4**	**137.4**
GROSS MARGIN	**566**	**760**	**182.6**	**202.6**
Total overheads			**233.5**	**193.0**
Total cost of production (£/t)			**390.9**	**330.4**
Net margin (before support payments) (£/t)			**(50.9)**	**9.6**

Crop price (£/t)	Net margin sensitivity – £/t 3.10 t/ha	3.75 t/ha
300.00	(90.90)	(30.40)
340.00	(50.90)	9.60
380.00	(10.90)	49.60

Assumes oilseed rape sold mid season
Oil bonuses included @ £25/t
HEAR & HOLL oilseed rape achieving £30-40/t more
Total overheads derived from the combinable crop unit on page 35, including allowance for rent, finance, drawings and tax

Field beans (winter and spring)

PERFORMANCE LEVEL

Tonnes per hectare	3.75	4.50	3.75	4.50
	£ per hectare		£ per tonne	
Output @ £ 165.00 per tonne	619	743	165.0	165.0
Total gross output	**619**	**743**	**165.0**	**165.0**
Variable costs				
Seed	80	80	21.3	17.8
Fertiliser	66	72	17.6	16.0
Spray	147	162	39.2	36.0
Total variable costs	**293**	**314**	**78.1**	**69.8**
GROSS MARGIN	**326**	**429**	**86.9**	**95.2**
Total overheads			**144.8**	**120.7**
Total cost of production (£/t)			**222.9**	**190.5**
Net margin (before support payments) (£/t)			**(57.9)**	**(25.5)**

Crop price (£/t)	Net margin sensitivity – £/t 3.75 t/ha	4.5 t/ha
135.00	(87.90)	(55.50)
165.00	(57.90)	(25.50)
195.00	(27.90)	4.50

Price based on a mix of feed beans and export for human consumption
Total overheads derived from the combinable crop unit on page 35, including allowance for rent, finance, drawings and tax

Potatoes – ware

PERFORMANCE LEVEL

Tonnes per hectare (sold)	45.00	50.00	45.00	50.00
	£ per hectare		£ per tonne	
Output @ £ 155.00 per tonne	6,975	7,750	155.0	155.0
Total gross output	**6,975**	**7,750**	**155.0**	**155.0**
Variable costs				
Seed	960	960	21.3	19.2
Fertiliser	521	541	11.6	10.8
Spray	565	580	12.6	11.6
Nematicide*	294	294	6.5	5.9
Potato council levy	45	45	1.0	0.9
Total variable costs	**2,385**	**2,420**	**53.0**	**48.4**
GROSS MARGIN	**4,590**	**5,330**	**102.0**	**106.6**
Total overheads			**95.1**	**87.6**
Total cost of production (£/t)			**148.1**	**136.0**
Net margin (before support payments) (£/t)			**6.9**	**19.0**

Crop price (£/t)	Net margin sensitivity – £/t 45.00 t/ha	50.00 t/ha
105.00	(43.10)	(31.00)
155.00	6.90	19.00
205.00	56.90	69.00

These are indicative margins as the sector is now so specialised
Potato price will vary greatly according to quality, season, contract and market
Storage can often lead to higher prices, costs of up to £40 per tonne can be incurred
*Depending on the method of application, nematicides are assumed to cover 50% – 75% of the potato area
Total overheads derived from the combinable crop and potato unit on page 37, including allowance for rent, finance, drawings and tax
Potatoes grown on annually rented land can add a further £15/t to the cost of production (COP)

Potatoes – processing

PERFORMANCE LEVEL

Tonnes per hectare (sold)	48.00	53.00	48.00	53.00
	£ per hectare		£ per tonne	
Output @ £ 128.00 per tonne	6,144	6,784	128.0	128.0
Total gross output	**6,144**	**6,784**	**128.0**	**128.0**
Variable costs				
Seed	840	840	17.5	15.8
Fertiliser	458	484	9.5	9.1
Spray	475	533	9.9	10.1
Nematicide*	290	290	6.0	5.5
Potato council levy	45	45	0.9	0.8
Total variable costs	**2,108**	**2,192**	**43.8**	**41.3**
GROSS MARGIN	**4,036**	**4,592**	**84.2**	**86.7**
Total overheads			**89.2**	**82.7**
Total cost of production (£/t)			**133.0**	**124.0**
Net margin (before support payments) (£/t)			**(5.0)**	**4.0**

Crop price (£/t)	Net margin sensitivity – £/t 48.00 t/ha	53.00 t/ha
98.00	(35.00)	(25.99)
128.00	(5.00)	4.01
158.00	25.00	34.01

These are indicative margins as the sector is now so specialised
Some contract prices will be subject to quality
Potato price will vary greatly according to quality, season, contract and market
Storage can often lead to higher prices, costs of up to £40 per tonne can be incurred
*Depending on the method of application, nematicides are assumed to cover 50% – 75% of the potato area
Total overheads derived from the combinable crop and potato unit on page 37, including allowance for rent, finance, drawings and tax
Potatoes grown on annually rented land can add a further £12/t to the cost of production (COP)

Sugar beet

Campaign 2017/18

PERFORMANCE LEVEL

Adjusted tonnes per hectare	75.00	75.00
	£ per hectare	£ per tonne
Output @ £ 27.00 per tonne	2,025	27.0
Total gross output	**2,025**	**27.0**
Variable costs		
Seed	210	2.8
Fertiliser	237	3.2
Spray	223	3.0
Total variable costs	**670**	**9.0**
GROSS MARGIN	**1,355**	**18.0**
Total overheads		**19.0**
Total cost of production (£/t)		**28.0**
Net margin (before support payments) (£/t)		**(1.0)**

Yield (t/ha)	Gross margin (£/ha)
55.00	815
75.00	1,355
95.00	1,895

Break Even = 77.31 T/Ha @ £27.00/T
Price includes a haulage allowance of £4.50/t, is contracted for 16% base sugar and is subject to early and late delivery bonuses
Most growers will incur contract haulage and lifting charges in the region of £490 – £550 per hectare
£22.50/tonne guaranteed minimum price (both one and three year contract)
Market bonus paid above a €475 trigger point up to a maximum EU sugar price of €700
One year contract: 10% of the sugar revenue above the trigger point will be paid to growers as the market bonus
Three year contract: 25% of the sugar revenue above the trigger point will be paid to growers as the market bonus
Total overheads including allowance for rent, finance, drawings and tax

Combinable crops

ROTATION: Wheat, beans, wheat, barley, oilseed rape

GROSS MARGIN

	Area	Yield	Gross Margin	
	ha	t/ha	£/ha	£ Total
Wheat (feed)	250	8.60	784.0	196,000
Winter barley	128	7.25	491.0	62,848
Oilseed rape	120	3.10	566.0	67,920
Field beans	128	3.75	326.0	41,728
Fallow	24		(25.0)	(600)
TOTAL GROSS MARGIN	**650**		**566.0**	**367,896**
Overheads				
Labour			85.9	55,849
Power and machinery (including depreciation)			261.9	170,219
Administration			49.6	32,250
Property			36.7	23,850
Overhead costs			**434.1**	**282,168**
Surplus (deficit) pre rent and finance			**131.9**	**85,728**
Farm specific overheads				
Rent and finance*			158.8	103,214
Drawings and tax			75.4	49,000
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			**(102.3)**	**(66,486)**

Potential support payments	**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments	(66,486)	(66,486)	(66,486)
Plus Basic Payment**	143,774	92,727	142,828
Plus Stewardship***	–	–	–
Surplus (deficit) post support payments	**77,288**	**26,241**	**76,342**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
** 1 euro = 90 pence
*** Due to many farms no longer receiving environmental payments and the uncertainty regarding renewals under the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.
Fallow area increased to account for blackgrass control / failed crops

Combinable crops – additional 100ha FBT

ROTATION: Wheat, beans, wheat, barley, oilseed rape

GROSS MARGIN

	Area	Yield	Gross Margin	
	ha	t/ha	£/ha	£ Total
Wheat (feed)	38	8.60	784.0	29,792
Winter barley	20	7.25	491.0	9,820
Oilseed rape	18	3.10	566.0	10,188
Field beans	20	3.75	326.0	6,520
Fallow	4		(25.0)	(100)
TOTAL GROSS MARGIN	**100**		**562.2**	**56,220**
Overheads				
Labour			78.0	7,800
Power and machinery (including depreciation)			224.0	22,400
Administration			26.0	2,600
Property			25.0	2,500
Overhead costs			**353.0**	**35,300**
Surplus (deficit) pre rent and finance			**209.2**	**20,920**
Farm specific overheads				
Finance (Marginal Cost)			27.1	2,711
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS (EXCL. Rent)			**182.1**	**18,209**

Potential support payments	**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments	18,209	18,209	18,209
Plus Basic Payment *	22,119	14,266	21,974
Margin available for rent + profit	**40,328**	**32,475**	**40,183**
Margin available for rent + profit / hectare	**403**	**325**	**402**
Profit margin, drawings and rent tender are to be determined by the reader			

* 1 euro = 90 pence
Assumes little additional mechanisation is necessary, but a small provision has been included
Assumes no Environmental Stewardship Agreement
Assumes Drawings and Tax yet to be accounted for
Fallow area increased to account for blackgrass control / failed crops

WHOLE FARM BUDGET

Combinable crops and potatoes

ROTATION: Wheat, oilseed rape, wheat, potatoes, wheat, beans

GROSS MARGIN

	Area	Yield	Gross Margin	
	ha	t/ha	£/ha	£ Total
Wheat (feed)	321	8.60	784.0	251,664
Field beans	107	3.75	326.0	34,882
Oilseed rape	107	3.10	566.0	60,562
Potatoes (ware)	107	45.00	4,590.0	491,130
Fallow	8		(25.0)	(200)
TOTAL GROSS MARGIN	**650**		**1,289.3**	**838,038**
Overheads				
Labour			187.3	121,716
Power and machinery (including depreciation)			462.3	300,491
Administration			69.3	45,067
Property			109.1	70,933
Overhead costs			**828.0**	**538,207**
Surplus (deficit) pre rent and finance			**461.3**	**299,831**
Farm specific overheads				
Rent and finance*			285.4	185,539
Drawings and tax			123.1	80,000
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			**52.8**	**34,292**

Potential support payments	**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments	34,292	34,292	34,292
Plus Basic Payment**	143,774	92,727	142,828
Plus Stewardship***	–	–	–
Surplus (deficit) post support payments	**178,066**	**127,019**	**177,120**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
** 1 euro = 90 pence
*** Due to many farms no longer receiving environmental payments under the old scheme and a small uptake in the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.
Fallow area increased to account for blackgrass control

HSBC Market View
Arable
Dairy
Red meat
Agricultural support

Dairy

"The key dilemma for many producers will be whether or not to increase output."

Market view, p11

The following Enterprise Margin data has been provided by Andersons Farm Business Consultants and is presented here in conjunction with HSBC.

Dairy

Dairy cows

Production year April 2018 – March 2019

PERFORMANCE LEVEL

Milk sales	litres per cow	7,500	9,000	7,500	9,000
		£ per cow		pence per litre	
Output					
Milk	28 pence per litre	2,100	2,520	28.0	28.0
Plus calf	(£160 less 8% and 10% mortality)	147	144	2.0	1.6
Less cow depreciation*		(149)	(170)	(2.0)	(1.9)
Total gross output		**2,098**	**2,494**	**28.0**	**27.7**
Variable costs					
Feed cost	£220 per tonne	523		7.0	
Feed cost	£250 per tonne		875		9.7
Vet and med		75	100	1.0	1.1
Dairy sundries	(incl. recording, AI and bull depreciation)	145	185	1.9	2.1
Forage	£587 per hectare	294	352	3.9	3.9
Total variable costs		**1,037**	**1,512**	**13.8**	**16.8**
GROSS MARGIN		**1,061**	**982**	**14.2**	**10.9**
Total overheads				**14.4**	**12.0**
Dairy replacement variable costs				2.1	2.1
Dairy replacements				(4.5)	(4.5)
Total cost of production (ppl)				**25.8**	**26.7**
Net margin (before support payments) (ppl)				**2.2**	**1.3**

	Net margin sensitivity – ppl	
Milk price (pence per litre)	7,500 litres per cow	9,000 litres per cow
21.00	(4.8)	(5.7)
28.00	2.2	1.3
35.00	9.2	8.3

Assumes herd is not affected by TB
* Cow value less cull value (inc. 10% mortality) divided by expected years in herd (25% & 28.50% replacement rate)
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the 250 cow dairy unit on page 43, including allowance for rent, finance, drawings and tax
Total cost of production net of calf sale, replacement variable costs and dairy replacement output
An explanation of aligned & non-aligned milk contracts can be found on page 10 in the Market View section

Dairy cows – spring calving grass-based system

Production year April 2018 – March 2019

PERFORMANCE LEVEL

Milk sales	litres per cow	4,000	5,500	4,000	5,500
		£ per cow		pence per litre	
Output					
Milk	26.5 pence per litre	1,060	1,458	26.5	26.5
Plus calf	(£160 less 8% and 10% mortality)	110	108	2.8	2.0
Less cow depreciation*		(96)	(115)	(2.4)	(2.1)
Total gross output		**1,074**	**1,451**	**26.9**	**26.4**
Variable costs					
Feed cost	£200 per tonne	80		2.0	
Feed cost	£215 per tonne		201		3.7
Vet and med		25	45	0.6	0.8
Dairy sundries	(incl. recording, AI and bull depreciation)	65	100	1.6	1.8
Forage	£291 per hectare	102		2.6	
	£343 per hectare		154		2.8
Total variable costs		**272**	**500**	**6.8**	**9.1**
GROSS MARGIN		**802**	**951**	**20.1**	**17.3**
Total overheads				**17.7**	**12.9**
Dairy replacement variable costs				2.5	2.5
Dairy replacements				(5.9)	(4.7)
Total cost of production (ppl)				**20.7**	**19.9**
Net margin (before support payments) (ppl)				**5.8**	**6.6**

	Net margin sensitivity – £/t	
Milk price (pence per litre)	4,000 litres per cow	5,500 litres per cow
19.50	(1.2)	(0.4)
26.50	5.8	6.6
33.50	12.8	13.6

Assumes herd is not affected by TB
Assuming spring block calving (12-15 weeks) - grazing based system. Milk price reflects seasonality
* Heifer value less cull value divided by expected years in herd
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the grass based 300 cow dairy unit on page 44, including allowance for rent, finance, drawings and tax
Total cost of production net of calf sale, replacement variable costs and dairy replacement output
An explanation of aligned & non-aligned milk contracts can be found on page 10 in the Market View section

Dairy replacements – cost of rearing

Age at calving (years)		2 AYR*	2 GRAZING
		£ per head	£ per head
Output			
Value of down calving heifer		1,500	1,300
Less calf	(£152 includes 5% mortality)	(160)	
Less calf	(£114 includes 5% mortality)		(120)
Total gross output		**1,340**	**1,180**
Variable costs			
Calf rearing		100	100
Feed cost		225	185
Forage	£343 per hectare	206	120
Miscellaneous		103	90
Total variable costs		**634**	**495**
Average cost of rearing per day		**0.87**	**0.68**
GROSS MARGIN			
Per heifer reared		706	685
Stocking rate			
Hectares per heifer reared		0.6	0.4

*All Year Round
Assumes herd is not affected by TB
If block calving, need to calve at 2 years
Down calving heifer value is set to represent the comparable cost of purchasing the heifer
Forage costs include contractor's charges for specialist contracting, e.g. silaging

HSBC Market View
Arable
Dairy
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250 Cow dairy farm

GROSS MARGIN

Farm size	140 ha
Herd size	250 cows
Milk price	28.00 ppl

	Number	Milk Sold	Gross Margin	
	Hd	l/cow	£/Hd	£ Total
Dairy cows	250	7,500	1,061.2	265,303
Replacements	63		706.0	44,478
TOTAL GROSS MARGIN			1,239.1	309,781
Overheads				
Labour			219.4	54,843
Power and machinery (including depreciation)			367.4	91,861
Administration			78.0	19,505
Property			77.9	19,464
Overhead costs			**742.7**	**185,673**
Surplus (deficit) pre rent and finance			**496.4**	**124,108**
Farm specific overheads				
Rent and finance*			174.7	43,684
Drawings and tax			166.0	41,500
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			155.7	38,924

Potential support payments	**N Ireland**	**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments	38,924	38,924	38,924	38,924
Plus Basic Payment **	47,930	31,872	25,273	30,784
Plus Stewardship ***	–	–	–	–
Surplus (deficit) post support payments	**86,854**	**70,796**	**64,197**	**69,708**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
However, additional 22ha rented land assumed at £500/ha all rented
** 1 Euro = 90 Pence
*** Due to many farms no longer receiving environmental payments under the old scheme and a small uptake in the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.
Northern Ireland Basic Payment is estimated due to unknown entitlement value
Scotland Basic Payment assumes additional 22ha has the same entitlement value as existing 118ha

300 Cow dairy farm – spring calving grass-based system

GROSS MARGIN

Farm size	169 ha
Herd size	300 cows
Milk price	26.50 ppl

	Number	Milk Sold	Gross Margin	
	Hd	l/cow	£/Hd	£ Total
Dairy cows	300	4,000	802.0	240,609
Replacements	60		685.0	41,100
TOTAL GROSS MARGIN			939.0	281,709
Overheads				
Labour			88.7	26,606
Power and machinery (including depreciation)			162.9	48,881
Administration			48.0	14,392
Property			50.8	15,226
Overhead costs			**350.4**	**105,105**
Surplus (deficit) pre rent and finance			**588.7**	**176,604**
Farm specific overheads				
Rent and finance*			175.3	52,603
Drawings and tax			181.7	54,500
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			231.7	69,501
Potential support payments	**N Ireland**	**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments	69,501	69,501	69,501	69,501
Plus Basic Payment**	57,849	35,552	26,113	37,155
Plus Stewardship***	–	–	–	–
Surplus (deficit) post support payments	**127,350**	**105,053**	**95,614**	**106,656**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
However, additional 51 ha rented land assumed at £500/ha all rented
** 1 Euro = 90 pence
*** Due to many farms no longer receiving environmental payments under the old scheme and a small uptake in the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.
Northern Ireland Basic Payment is estimated due to unknown entitlement value
Scotland Basic Payment assumes additional 51ha has the same entitlement value as existing 118ha

Red meat

"Both beef and sheep producers have benefited from increased competitiveness due to the weaker sterling following the Brexit vote."

Market View, p12

The following Enterprise Margin data has been provided by Andersons Farm Business Consultants and is presented here in conjunction with HSBC.

Red meat

Suckler cows – spring calving

Calving spring 2018 and sold at 12 months of age as yearling stores

PERFORMANCE LEVEL

Average liveweight sold per cow (kg)		338.2	368.0	338.2	368.0
		£ per cow		pence per kg lwt	
Output					
Store cattle (89% calving %) – see matrix*		804		237.7	
Store cattle (92% calving %) – see matrix*			893		242.7
Less cow and bull replacement charge**		(105)	(105)	(31.0)	(28.5)
Total gross output		**699**	**788**	**206.7**	**214.2**
Variable costs					
Feed cost	£205 per tonne (including creep feed)	133	113	39.3	30.7
Bulk feed		15	15	4.4	4.1
Vet and med		45	40	13.3	10.9
Bedding straw		55	55	16.3	14.9
Commission, haulage, levies, tags and sundries		50	50	14.8	13.6
Forage	0.9 ha per cow and store to sale	115	115	34.0	31.3
Total variable costs		**413**	**388**	**122.1**	**105.5**
GROSS MARGIN		**286**	**400**	**84.6**	**108.7**
Total overheads				**168.0**	**154.4**
Total cost of production (p/kg lwt)				**321.1**	**288.4**
Net margin (before support payments) (p/kg lwt)				**(83.4)**	**(45.7)**

***Store sale prices matrix**				
	kg lwt	p/kg lwt	£/hd	£/hd
Steers	390	240	936	
Heifers	370	235	870	
Steers	410	245		1,005
Heifers	390	240		936

** Replacement value less cull value divided by expected years in herd plus an allowance for bulls
Sale price assumes calves sold onto the traditionally strong spring market for grazing cattle
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the upland beef and sheep unit on page 54, including allowance for rent, finance, drawings and tax

Finishing store cattle

Stores purchased throughout the year 300–380 day feeding period

PERFORMANCE LEVEL

Average liveweight sold per store (kg)		600.0	600.0	600.0	600.0
		£ per cow		pence per kg lwt	
Output					
Sale		1,238	1,271	206.3	211.8
Less store purchase price – see matrix*					
£768 plus 0.5% allowance for mortality		(772)		(128.7)	
£705 plus 0.5% allowance for mortality			(709)		(118.2)
Total gross output		**466**	**562**	**77.6**	**93.6**
Variable costs					
Feed costs / by products	£190 per tonne	190		31.7	
	£180 per tonne		144		24.0
Vet and med		25	25	4.2	4.2
Bedding straw		50	50	8.3	8.3
Commission, haulage, levies, tags and sundries		60	60	10.0	10.0
Forage	0.25 ha per hd	38	38	6.3	6.3
Total variable costs		**363**	**317**	**60.5**	**52.8**
GROSS MARGIN		**103**	**245**	**17.1**	**40.8**
Total overheads				**42.9**	**42.9**
Total cost of production	**(p/kg lwt)**			**232.1**	**213.9**
	(p/kg dwt)			**422.0**	**388.9**
Net margin (before support payments) (p/kg lwt)				**(25.8)**	**(2.1)**

***Purchase prices matrix**						
	kg lwt	p/kg lwt			£/hd	£/hd
Average	320	240			768	
Above average	300	235				705
Sale prices						
	kg lwt	p/kg lwt	kg dwt	p/kg dwt	£/hd	£/hd
Average	600	206	330	375	1,238	
Above average	600	212	330	385		1,271

Assumes killing out at 55%
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads including allowance for rent, finance, drawings and tax

Lowland sheep March/April lambing flock

PERFORMANCE LEVEL

Lambs sold per 100 ewes		150	170	150	170
Average liveweight sold per ewe (kg)		60.0	68.0	60.0	68.0
		£ per ewe		pence per kg lwt	
Output					
Lambs	40kg liveweight @ 195p per kg	117.0		195.0	
	40kg liveweight @ 195p per kg		132.6		195.0
Wool		2.6	2.6	4.3	3.8
Less ewe and ram replacement charge*		(22.0)	(22.0)	(36.7)	(32.4)
Total gross output		**97.6**	**113.2**	**162.6**	**166.4**
Variable costs					
Feed costs	£215 per tonne				
	40kg per ewe, 10kg per lamb	11.8	12.3	19.7	18.1
Vet and med		9.0	9.0	15.0	13.2
Commission, haulage, levies, tags and sundries		8.0	8.5	13.3	12.5
Forage	0.14 ha per ewe	13.0	13.0	21.7	19.1
Total variable costs		**41.8**	**42.8**	**69.7**	**62.9**
GROSS MARGIN		**55.8**	**70.4**	**92.9**	**103.5**
Total overheads				**131.5**	**116.0**
Total cost of production	**(p/kg lwt)**			**233.6**	**207.5**
	(p/kg dwt)			**491.8**	**436.8**
Net margin (before support payments) (p/kg lwt)				**(38.6)**	**(12.5)**

* Replacement value less cull value divided by expected years in flock
Assumes killing out at 47.5%
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the lowland mixed farm unit on page 53, including allowance for rent, finance, drawings and tax
Total cost of production net of wool sale

Upland sheep

Breeding stock and lamb production

PERFORMANCE LEVEL

Lambs sold per 100 ewes		130	150	130	150
Average liveweight sold per ewe (kg)		47.5	54.8	47.5	54.8
		£ per ewe		pence per kg lwt	
Output					
Lambs	45% Finished @ 38kg @ 190p per kg				
	25% Store @ 32kg @ 190p per kg				
	30% Breeding @ £75 per head	91.2	105.3	192.0	192.2
Wool		2.2	2.2	4.6	4.0
Less ewe and ram replacement charge*		(21.0)	(21.0)	(44.2)	(38.3)
Total gross output		**72.4**	**86.5**	**152.4**	**157.9**
Variable costs					
Feed costs	£215 per tonne 35kg per ewe, 8kg per lamb	9.8	10.1	20.6	18.4
Vet and med		7.5	7.5	15.8	13.7
Commission, haulage, levies, tags and sundries		7.0	7.5	14.7	13.7
Forage	0.21 ha per ewe	11.0	11.0	23.2	20.1
Total variable costs		**35.3**	**36.1**	**74.3**	**65.9**
GROSS MARGIN		**37.1**	**50.4**	**78.1**	**92.0**
Total overheads				**117.1**	**101.5**
Total cost of production	**(p/kg lwt)**			**231.0**	**201.7**
	(p/kg dwt)			**496.8**	**433.8**
Net margin (before support payments) (p/kg lwt)				**(39.0)**	**(9.5)**

* Replacement value less cull value divided by expected years in flock
Assumes killing out at 46.5%
Budgeted price adjusted for breeding sales
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the upland beef and sheep unit on page 54, including allowance for rent, finance, drawings and tax
Total cost of production net of wool sale

Hill sheep

PERFORMANCE LEVEL

Lambs reared per 100 ewes		100	115
Lambs sold per 100 ewes		75	90
		£ per ewe	
Output			
Lambs	50% finished @ 30kg @ 185p per kg		
	50% stores @ 25kg @ 185p per kg	38.2	45.8
Draft ewe		8.1	8.1
Wool		1.8	1.8
Less ram replacement charge*		(4.7)	(4.7)
Total gross output		**43.4**	**51.0**
Variable costs			
Feed costs	£220 per tonne		
	20kg per ewe, 8kg per lamb	6.2	6.4
Vet and med		6.5	6.0
Commission, haulage, levies, tags and sundries		5.0	5.0
Wintering costs		4.0	4.0
Forage		4.0	4.0
Total variable costs		**25.7**	**25.4**
GROSS MARGIN		17.7	25.6
Total overheads		**61.9**	**61.9**
Net margin (before support payments) (£/hd)		**(44.2)**	**(36.3)**

* Replacement value less cull value divided by expected years in flock
Forage costs include contractor's charges for specialist contracting, e.g. silaging
Total overheads derived from the hill beef and sheep unit on page 55, including allowance for rent, finance, drawings and tax

Lowland mixed farm

60 suckler cows, 80 cattle finishing, 500 lowland ewes

GROSS MARGIN

	Head	Area	Gross Margin	Gross Margin	
		ha	£/hd	£/ha	£ Total
Suckler cows	60	50	286.0	343.2	17,160
Cattle finishing	80	20	245.0	980.0	19,600
Lowland ewes	500	66	55.8	422.7	27,900
Winter barley		20		491.0	9,820
Spring barley		20		633.0	12,660
TOTAL GROSS MARGIN		176		495.1	87,140
Overheads					
Labour				58.2	10,250
Power and machinery (including depreciation)				256.0	45,062
Administration				52.7	9,280
Property				61.6	10,846
Overhead costs				**428.6**	**75,438**
Surplus (deficit) pre rent and finance				**66.5**	**11,702**
Farm specific overheads					
Rent and finance*				81.3	14,314
Drawings and tax				130.7	23,000
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS				(145.5)	(25,612)

Potential support payments	**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments	(25,612)	(25,612)	(25,612)
Plus Basic Payment**	47,098	28,977	38,693
Plus Stewardship***	–	–	–
Surplus (deficit) post support payments	**21,486**	**3,365**	**13,081**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
** 1 Euro = 90 pence
*** Due to many farms no longer receiving environmental payments under the old scheme and a small uptake in the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.
Assumes temporary grass for the third crop

Upland beef and sheep farm

120 suckler cows, 1500 upland ewes

GROSS MARGIN

	Head	Area	Gross Margin	Gross Margin	
		ha	£/hd	£/ha	£ Total
Suckler cows	120	108	286.0	317.8	34,320
Upland ewes	1,500	315	37.1	176.7	55,650
TOTAL GROSS MARGIN		**423**		**212.7**	**89,970**
Overheads					
Labour				61.7	26,110
Power and machinery (including depreciation)				110.9	46,910
Administration				27.3	11,535
Property				34.4	14,535
Overhead costs				**234.3**	**99,090**
Surplus (deficit) pre rent and finance				**(21.6)**	**(9,120)**
Farm specific overheads					
Rent and finance*				54.0	22,842
Drawings and tax				70.0	29,600
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS				**(145.5)**	**(61,562)**
Potential support payments			**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments			(61,562)	(61,562)	(61,562)
Plus Basic Payment **			99,045	58,444	92,289
Plus Stewardship ***			–	–	–
Surplus (deficit) post support payments			**37,483**	**(3,118)**	**30,727**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
** 1 Euro = 90 Pence
*** Due to many farms no longer receiving environmental payments under the old scheme and a small uptake in the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.
Areas used by individual farmers to generate this level of physical and financial output will vary considerably between country, topography and also the level of subsidy which these attract. Please be guided by and adjust for local circumstances.

WHOLE FARM BUDGET

Hill beef and sheep farm

35 suckler cows, 850 hill ewes

GROSS MARGIN

	Head	Gross Margin	Gross Margin
		£/hd	£ Total
Suckler cows	35	286.0	10,010
Hill ewes	850	17.7	15,045
TOTAL GROSS MARGIN			**25,055**
Overheads			
Labour			4,685
Power and machinery (including depreciation)			22,465
Administration			7,120
Property			8,050
Overhead costs			**42,320**
Surplus (deficit) pre rent and finance			**(17,265)**
Farm specific overheads			
Rent and finance*			9,879
Drawings and tax			18,000
SURPLUS (DEFICIT) PRE SUPPORT PAYMENTS			**(45,144)**
Potential support payments		**Scotland**	**Wales**	**England**
Surplus (deficit) pre support payments		(45,144)	(45,144)	(45,144)
Plus Basic Payment**		33,331	66,354	39,747
Plus Stewardship***		–	–	–
Surplus (deficit) post support payments		**(11,813)**	**21,210**	**(5,397)**

*Assumed 50% land rented (50% Agricultural Holdings Act (AHA) + 50% Farm Business Tenancy (FBT))
** 1 Euro = 90 Pence
*** Due to many farms no longer receiving environmental payments under the old scheme and a small uptake in the new CSS, the budget assumes no stewardship income for consistency. However, LFASS will continue to be received in Scotland.

HSBC Market View
Arable
Dairy
Red meat
Agricultural support

Agricultural support

"The decision by the UK to leave the EU will mean that, on exit, new policies will be required."

Agricultural Support, p58

Agricultural support

Agricultural support

(as at August 2017)

Introduction

Agricultural support to farmers and the rural economy is currently delivered under the EU Common Agricultural Policy (CAP). The decision by the UK to leave the EU will mean that, on exit, new policies will be required to replace the CAP. However, until formal exit occurs, which is tabled for March 2019, farmers will still be eligible for support under the CAP and will still need to abide by all the regulatory measures.

BPS payments for 2018 are certain. Furthermore, the government has announced the agricultural sector will receive the same level of funding until the end of the current Parliament (scheduled to be 2022). Whilst funding may not change in the immediate future, it is possible that a new 'system' could be introduced to replace the BPS. However, it is more likely that the BPS could be rolled-over largely intact into UK legislation for 2019 and possibly 2020 whilst a new policy is worked out.

In the meantime, the BPS will continue to evolve. There will be some changes to the Greening rules from 1st January 2018 – see the Greening section that follows for more details.

CAP Structure

The CAP is currently delivered through two main budgets (known as Pillars). Pillar 1 provides direct aid to farm businesses through the Basic Payment Scheme and Market Support for agricultural produce (the latter now much diminished). Pillar 2 relates to support through Rural Development Programmes.

Devolution

Agricultural policy and support is a devolved matter, and each part of the UK operates a slightly different BPS system and has its own Rural Development Programme. A summary of the schemes operated by each administration is provided in the sections that follow.

AGRICULTURAL SUPPORT

The Basic Payment Scheme

(as at August 2017)

Introduction

The Basic Payment Scheme (BPS) replaced the Single Payment Scheme (SPS) as from 1st January 2015.

BPS Entitlements

Eligible claimants to the BPS were granted 'entitlements' to support (based on the 2015 BPS application). These entitlements have to be activated on a yearly basis with eligible land. The allocation of BPS entitlements differed across the UK.

In England, existing SPS entitlements were rolled-over for use under the new BPS as long as the claimant had sufficient land in 2015.

In Scotland, Wales and Northern Ireland there was a new grant of entitlements. Existing SPS entitlements were cancelled and a new grant was undertaken:

- based on eligible land occupied as at 15th May 2015.
- farmers were **only** eligible for these new entitlements if they received a payment under the SPS in 2013.

However, there was some flexibility built into the allocation system to deal with those businesses which had changed between 2013 and 2015 and also for new entrants, mainly through the National Reserve and the Private Contract Clause.

Payment System

All countries have to move to the regional payment system as was already operating in England under the SPS. This is where all entitlements in the same region eventually have the same value.

Wales and Scotland both decided to phase in the regional rate system by 2019. This will be done in equal steps of 20% per year. Northern Ireland chose a longer transition with a fully regional rate applying by 2021.

Regions

Moving to a regional payment system often requires countries to be split into sub-regions. By paying different regional rates, it prevents relatively large amounts of support going to low-productivity areas such as moorland.

In England, the three existing SPS regions were retained; Lowland, SDA, and Moorland. However, payment rates in the SDA and Lowland regions have been equalised.

Under the previous SPS scheme, the other parts of the UK were not split into regions. For the BPS, Scotland created three regions:

- Region 1: the best quality land (arable and improved grassland).
- Region 2: better quality rough grazing (Less Favoured Area Support Scheme (LFASS) grazing categories B, C and D)
- Region 3: least productive rough grazing (LFASS category A).

Wales and Northern Ireland have both continued to have just one region.

Top-Up Schemes

The BPS forms the main element of a suite of direct payments. Top-ups available are:

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HSBC Market View
Arable
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Agricultural support

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- '**Greening**': This is by far the most important and 30% of available funds is ring-fenced for these – see below for more details
- **Young Farmers Payment:** A mandatory scheme which is required in all countries. It takes up to 2% of funds to top-up payments to farmers under 40. A 25% top-up is paid on a limited number of entitlements (25 Ha in Wales, 90 Ha in England, Scotland and N. Ireland) for five years.
- **Coupled Payments:** Only Scotland has chosen to implement this option. There are headage payments of approximately €100 per calf (€160 in the Islands) on calves with 75% beef genetics and also €100 per ewe hogg for farms with more than 80% of their land in Region 3 and less than 200 Ha of Region 1 land.
- **Redistributive Payment:** Only Wales has taken up this option. An additional payment worth around €119 per Ha will be paid on the first 54 Ha (133acres) of any claim.

'Greening'

To secure the 30% of funds for 'Greening' farmers have to comply with three measures:

- **Crop Diversification** applies to those with 10 or more hectares of **arable** land:

1. 10-30 hectares – two crops required (main crop not more than 75% of the arable area)
2. over 30 hectares – three crops required (main crop not more than 75%, two main crops not more than 90%)

The definition of 'crop' follows standard agronomic practices.

There are exemptions from this rule for those with a large proportion of grass or fallow, as long as the remaining arable land area is less than 30 hectares.

- **Maintenance of Permanent Pasture** requires the area of grass over 5 years old to be kept at 95% of the level of the first year of the scheme. This is being implemented at a national level in all parts of the UK so there are no farm-level restrictions from this rule at present.
- **Ecological Focus Areas (EFAs)** must comprise 5% of a holding's arable area where there is more than 15 hectares of such land. Member States are able to choose from a list of possible features to decide what qualifies as an eligible EFA. Each devolved nation has made its own choice – see summary table on page 62, but refer to scheme guidance for full details.

There is an exemption from the EFA requirement for those with a large portion of their land in grass, fallow or legumes as long as the remaining arable land area is less than 30 hectares.

It is an option for Member States to come up with 'equivalent' measures to replace the three default requirements. None of the UK regions have taken up this option.

Organic land is exempt from Greening, although it still receives the payment.

Penalties apply where the Greening measures are not followed. This is based on how much of a shortfall there is. Failure to comply with the Greening rules completely, results in the full Greening payment being lost (30%). From 2017 onwards additional penalties on the BPS payment also apply if the Greening measures are not followed.

Payments under agri-environmental schemes may be reduced where the scheme provisions overlap with Greening. Greening is an annual requirement so the obligations on each farm can vary as cropping changes. In addition, a number of revisions to the rules will be introduced from 1st January 2018, these include:

- The prohibition of the use of pesticides on all EFA land (i.e including Nitrogen Fixing Crops) from sowing to harvest
- Field margins can now be used towards EFAs. The min width is 1m with the same EFA value as buffer strips
- EFA Catch Crops must be established by 20th August and remain until at least 14th October (min. 8 weeks)
- EFA Nitrogen Fixing Crops (NFC) can be a mixture of NFC and non-NFC as long as the NFC content is more than 50%.

Capping / Degressivity

Restrictions are imposed on the amount of direct payment that individual claimants can receive. There is a basic mandatory level which requires a 5% reduction in aid rates above €150,000 - known as 'degressivity'. Member States could choose to implement higher levels of degressivity above this. These could be up to 100% - hence 'capping' in the true sense of the word, with a maximum payment per business. Bands of capping are also possible.

England and Scotland decided to levy the minimum of 5% on aid rates above €150,000 (although Scotland had plans to introduce fuller capping in 2018 but no details had been announced at the time of writing). The other UK regions have imposed more stringent capping – see summary on page 62.
The Greening element (30% of funds) is exempt from capping.

Active Farmer and Activity Levels

Payments are limited to 'active farmers'. There are two parts to this rule.
Firstly, there is a simple 'negative list' of businesses not automatically eligible for the BPS. These include operators of airports, water companies, railways, real-estate services and sports grounds. However, even if a claimant falls within the negative list they may still be eligible for BPS; if the claimant has more than 36 Ha of eligible land in England, 21 Ha in Wales or 26 Ha in N. Ireland they are automatically an active farmer. Scotland does not have an area readmission route. It may also be possible to be 'readmitted' as an active farmer by the income routes – see scheme details.

Secondly, if more than 50% of a claimant's land is in 'areas naturally kept in a state suitable for grazing or cultivation' **and** they do not comply with the minimum activity rules they are deemed not to be an active farmer. England does not have any land under this classification and it is therefore not an issue. Wales has identified saltmarsh and coastal dunes. In Scotland, land in Payment Regions 2 and 3 is classed as such land and minimum activity levels have been set – see summary table on page 62; refer to scheme guidance for full details. Northern Ireland has also set minimum activity level rules – see guidance.

If the claimant received less than €5,000 in direct payments in the previous year they are automatically eligible for the BPS.

Pillar Transfer

The previous modulation rules, deducting funds from farmers' Single

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>> Basic Payment Scheme Summary

	England	Scotland	Wales	N. Ireland
Entitlements and Regions:				
Entitlement Grant	*SPS entitlements retained*	*New grant in 2015*	*New grant in 2015*	*New grant in 2015*
Phasing to a fully Regional Payment rate	*Already done*	*By 2019*	*By 2019*	*By 2021*
Number of Regions	*Three: 1. Lowland 2. SDA 3. Moorland*	*Three: 1. Arable/Grass 2. Good R. Grazing 3. Poor R. Grazing*	*One*	*One*
Top-Up Schemes:				
Schemes operating	*Greening, Young Farmers*	*Greening, Young Farmers, Coupled Payments[1]*	*Greening, Young Farmers, Redistributive Payment[2]*	*Greening, Young Farmers*
Young Farmers payment limit	*90 Ha*	*90 Ha*	*25 Ha*	*90 Ha*
Young Farmers qualification requirements	*None*	*None*	*None*	*Level II agricultural qualification*
Greening:				
Greening requirements	*Three basic EU measures – Crop Diversification, EFAs, and Perm. Pasture retention*	*Three basic EU measures.*	*Three basic EU measures*	*Three basic EU measures*
Permanent pasture at a national level?	*Yes*	*Yes*	*Yes*	*Yes*
Land eligible for EFA NFC = Nitrogen fixing crops – note, eligible crops may vary between regions SRC = Short rotation coppice (no inputs) Green cover includes cash crops	*1. Fallow 2. Hedges/Trees 3. Buffer strips 4. Field Margins 5. Green cover 6. NFC*	*1. Fallow 2. Buffer strips 3. Field margins 4. Green cover 5. NFC 6. Hedges[3] 7. Afforested land[3]*	*1. Fallow 2. Hedges and stone walls 3. SRC 4. Afforested land 5. NFC*	*1. Fallow 2. Hedges, ditches stone walls 3. Agro-forestry 4. SRC 5. Afforested land 6. NFC*
Restrictions/Deductions:				
Minimum claim size	*5 Ha*	*3 Ha*	*5 Ha*	*5 Ha*
Capping / Degressivity rates (not applicable to the Greening payment)	*5% above €150,000 p.a.*	*5% above €150,000 p.a[6]*	*€150-200K – 15% €200-250K – 30% €250-300K – 55% > €300K – 100%*	*100% (i.e. full capping) above €150,000*
Capping labour cost deduction	*No*	*No*	*No*	*No*
Active Farmer test	*Basic 'negative list' used*	*Basic 'negative list' used*	*Basic 'negative list' used*	*Basic 'negative list' used*
Minimum claim area for Readmission under Active Farmer	*36 Ha*	*Criteria not used*	*21 Ha*	*26 Ha*
Minimum Activity levels on naturally-kept land	*No naturally kept land defined – therefore no issues*	*Payment Regions 2 & 3 defined – min. stocking levels or an Annual Environmental Assessment*	*Saltmarsh and dunes defined – weed control, fencing and water provision required*	*Rules on minimum activity levels apply – see scheme guidance*
Pillar Transfer (modulation replacement)	*12%*	*9.5%*	*15%*	*0%*
Financial discipline	*Rate the same across all EU Member States – set on a yearly basis so currently unknown – 1.5% assumed for 2018*			
Estimated payments for 2018:				
Estimated net payment for lowland[4] (non-LFA) arable land[5] – €/ha	*€248*	*€245*	*€152[7]*	*€320*
Estimated net payment for lowland[4] (non-LFA) arable land[5] – £/ha	*£219*	*£220*	*£137[7]*	*£288*

Payments, have gone. Instead Member States transferred up to 15% of BPS funds to Rural Development spending prior to the allocation of entitlements. This is known as a Pillar Transfer. Each of the devolved regions has decided to take this up at different rates;

- England – 12% (the option to increase to 15% for 2018 and 2019 has not been taken up)
- Scotland – 9.5%
- Wales – 15%
- Northern Ireland – 0%

The Financial Discipline rules will remain. This will see all payments reduced if the annual CAP budget is exceeded.

Useful Links
EU: https://ec.europa.eu/agriculture/cap-overview/history_en
DEFRA: https://www.gov.uk/topic/farming-food-grants-payments/rural-grants-payments
Scotland: https://www.ruralpayments.org/publicsite/futures/
Wales: http://wales.gov.uk/topics/environmentcountryside/farmingandcountryside/cap/?lang=en
Northern Ireland: https://www.daera-ni.gov.uk/topics/grants-and-funding

[1] Payment of approx.€100 per beef-bred calf (€160 in the islands). Plus €100 per ewe hogg for farms with more than 80% of their land in Region 3 and less than 200 Ha of Region 1 land
[2] Payment of approximately €119 per Ha on the first 54 Ha of each claim
[3] For 2018 Scotland has announced agro-forestry as a new EFA feature and hedges are to be a separate EFA, but no details are yet available
[4] Only the Lowland Region is shown in England & Region 1 in Scotland
[5] Assumes the hectare was used to grow a combinable crop in the Reference Period (2000-02), and Arable Area Payments were claimed upon it. No National Reserve application made. Rates shown are after all deductions for Pillar Transfers and Financial Discipline (latter assumed at 1.5%). Conversion from Euros to sterling estimated at €1 = 90p in 2018
[6] Previously proposed to have 100% cap above €600,000 but no announcement had been made at the time of writing
[7] Excludes Redistribution payment

Other support

(as at August 2017)

Introduction
Under the CAP, other elements of aid include Market Support under Pillar 1 and Rural Development under Pillar 2.

Market Support
Market Support measures are made up of tariff barriers, intervention buying, export subsidies and quotas. Most of these mechanisms are of little direct relevance to farm budgeting.

Rural Development Support
Rural Development (RD), or Pillar 2 of the CAP, supports environmental protection, economic development and creating thriving rural communities. Rural Development operates under seven-year 'programme periods'. The current one is due to run until 2020.

But when the UK leaves the EU support for RD schemes will no longer be available through the CAP and the UK will need to develop its own schemes. Rural Development agreements often run for more than one year. DEFRA has confirmed that all Rural Development agreements signed before the date of Brexit will be honoured in full by the UK Treasury.

Under Pillar 2 of the CAP, a range of support measures are allowed under six 'priorities', LEADER (funding for rural communities) is also available. The majority of the budget is targeted at schemes which enhance the environment (agri-environment schemes) but there is also funding for: competiveness, training, young farmers,advice, food quality, collaboration, diversification etc.

Each of the devolved regions has its own Programme. Most schemes were launched in 2015.

Rural Development Programme England (RDPE)
In England the majority of funding is available for agri-environmental schemes but there is also funding to increase the efficiency of the farming and forestry sectors. The Growth Programme and LEADER also offer funds to improve rural economies and communities. The following is a summary of the schemes available in England:

- **Countryside Stewardship Scheme (CSS):** The CSS is England's flagship agri-environmental scheme. It provides three tiers of funding: Higher Tier, Mid-Tier and Capital Grants. It is a competitive scheme and only the best applications will be approved. There is a menu of options to choose from including organic and upland options. The scheme is administered by Natural England – see https://www.gov.uk/government/collections/countryside-stewardship-get-paid-for-environmental-land-management
- **Countryside Productivity Scheme (CPS):** The CPS is available to help improve the productivity of farming and forestry businesses. Grants are available in 'rounds' and cover up to 40% of total eligible costs. See https://www.gov.uk/guidance/countryside-productivity-scheme
- **Rural Growth:** Funding for Rural Growth is available through Local Enterprise Partnerships (LEPs) or LEADER Local Action Groups (LAGs). LAGs set priorities for their area and distribute funds for projects which will improve the rural economy, create jobs and help businesses grow – see https://www.gov.uk/guidance/rural-development-programme-for-england-leader-funding. There are 39 LEPs in England. Each has set its own priorities to help grow the rural economy and create jobs. Funding is available under 3 themes; Business Development, Food Processing and Rural Tourism Infrastructure – see https://www.gov.uk/government/publications/rdpe-growth-programme

Welsh Rural Development Programme (WRDP)
The main schemes available in Wales include:

- **Glastir:** In Wales the majority of funding is available through the continuation of Glastir. This funds landbased measures and is open to all farmers in Wales. It includes support for woodland and organic farming.
- **Farm Business Grant Scheme:** New in 2017, this provides support to improve the economic and environmental performance of agricultural holdings. Applicants 'choose' from a list of capital items with standardised costs. Min. grant £3,000, max. £12,000.
- **Sustainable Production Grants:** These replace the Glastir Efficiency Grants and provide funds to improve farm profitability and environmental outcomes. Funds of up to 40% of eligible costs will be available in 'rounds'. Min. grant £16,000, max. £400,000.
- **Farming Connect:** A new Farming Connect programme is available providing subsidised advisory services and technical support.
- **LEADER:** Through Local Action Groups (LAGs) funding will be available to community groups for projects which will help mitigate rural poverty and increase rural jobs and growth.
- **Food Business Investment Scheme (FBIS):** Support is available to fund capital investments to help primary producers of agricultural products to add value to their end products.
- **Timber Business Investment Scheme:** This provides support for capital investments to improve the profitability of forests and woodlands.

To find out more information on the WRDP see http://gov.wales/topics/environmentcountryside/farmingandcountryside/cap/ruraldevelopment/wales-rural-development-programme-2014-2020/?lang=en

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Scottish Rural Development Programme (SRDP)
In Scotland the majority of funding will go towards hill farming and agri-environment payments. The main schemes available include:

- **Less Favoured Area Support Scheme (LFASS):** Under EU rules the LFASS in Scotland cannot continue in its current format. However for 2018, Member States can continue to pay eligible claimants 80% of their 2017 payment. Scotland has confirmed it will be taking up this option.
- **Agri-environment Climate Scheme:** This is the current agri-environment scheme in Scotland. Support for organic farming is also available under this scheme.
- **Forestry Grant Scheme:** This supports the creation of new woodland as well as the maintenance and health of existing woodland.
- **New Entrants Support Scheme:** Support is available for new and young entrants through three programmes.

There is also support for the Scottish beef sector, food & drink sector, crofting communities and small farms. Funding for training, knowledge transfer & advice is also available. Through LEADER LAGs there is funding to implement Local Development Strategies. For further information see - http://www.gov.scot/Topics/farmingrural/SRDP/SRDP20142020Schemes

NI Rural Development Programme (NIRDP)
Under the current NIRDP the following schemes are available:

- **Environmental Farming Scheme:** This is the main agri-environment scheme. Support for organic farming, forestry and LFAs is available under separate schemes.
- **Farm Business Improvement Scheme:** This provides funds to improve the competitiveness of agriculture.

Funding is also available for a number of measures to improve rural communities including costs for LEADER LAGs, rural broadband and rural Tourism. For more information see https://www.daera-ni.gov.uk/topics/grants-and-funding

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